Agenda Item 3

METROPOLITAN
TRANSPORTATION
COMMISSION

Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607-4700
TEL 510.817.5700
TDD/TTY 510.817.5769
FAX 510.817.5848
E-MAIL info@mtc.ca.gov
WEB www.mtc.ca.gov

Memorandum

TO: Administration Committee DATE: September 5, 2012

FR: Executive Director W. I.

RE: State of California Public Pension Reform – Impact on MTC Pension Formula

On Friday, August 31, 2012, the California Legislature approved Assembly Bill 340 (Furutani), and it is now on the Governor's desk for his expected signature. This bill will require all public employers, including MTC, to amend their pension agreements applicable to employees who enter the pension system for the first time on or after January 1, 2013 and to adopt some changes to existing plans within five years. The bill is expected to have three principal effects on MTC's pension plan.

First, per MTC Resolutions Nos. 4023 and 4024, memoranda of understanding between MTC staff and management effective August 1, 2011, staff was in the process of creating and adopting a second tier CalPERS pension formula of 2% at age 60 for new employees to be processed and approved for an effective date of October 1, 2012. The bill requires a January 1, 2013 plan amendment for new employees with a retirement formula of 2% at age 62. Meetings will be held with MTC employee groups to discuss the new formula requirement and the need to revise our second tier approach.

Second, the bill also requires a pension plan amendment effective January 1, 2013 that will require new employees to contribute a minimum of 50% of the plan's Normal Costs. Employers may ask employees to agree to contribute more than 50% of Normal Costs. Normal Costs are a percentage of the Employer Contribution rate as defined by actuarial review annually. For fiscal year 2012, MTC's Normal Costs are 9.875%. New employees as of January 1, 2013 will be required to pay at a minimum 50% of 9.875% or 4.98%. It is our understanding that current employees would be required to pay, at a minimum, the 50% of Normal Costs rate in effect at the time such requirement is applicable to them (public employers are allowed a phase in period for existing employees). Under our current MOU that expires June 30, 2014, existing MTC employees are currently contributing 5.19% and have agreed to assume 50% of any overall contribution rate change of the Employer Contribution required by CalPERS.

Third, the other new requirement that will most affect new employees at the senior level positions is the restriction on the level of pensionable compensation, which is subject to annual adjustment. Under MTC's current organizational structure there are approximately 50 positions that will be subject to the pensionable compensation cap should we hire new individuals to fill those positions who have not been part of the CALPERS system. Pensionable compensation in the amended plan must be the average of the highest 36 consecutive months of eligible wages, which is consistent with MTC's current pension plan, but only to an earning cap as specified in Section 430(b) of Title 42 of the United States Code. This amount is currently $110,000 annually if the agency participates in the Social Security System; or 120% of that amount--or

$132,000 annually--if the agency does not participate in the Social Security System. MTC does not participate in the Social Security System.

The bill includes various other requirements, none of which are meaningfully different from MTC's current contract with our employees. Staff will complete an analysis of the bill and report to the Committee at your meeting on September 12 on any other significant changes affecting MTC.

Recommendation
As staff anticipates that the Governor will sign AB 340, I am recommending that MTC management meet with the Committee for Staff Representation (CSR) and propose suspending the creation of the second tier plan amendment outlined in the current MOU and instead await the implementation of the provisions of AB 340. This will avoid having to administer a third tier amendment starting in January 2013.

Steve Heminger

SH: RJ
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